Seven things we need in tomorrow's budget speech

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On 26 February, the entire country will be focused on Cape Town and the national Parliament as Finance Minister Tito Mboweni delivers the 2020 National Budget.

The speech comes after a time of literal and figurative stumbling around in the dark for SA. Over the past five years, the National Budget has delivered a story focused on a constrained economy that is struggling to kick start its economic growth. This year promises to be much of the same.

When one looks at the South African economy, it is easy enough to find a catalogue of challenges, making even the most optimistic amongst us question whether it wouldn't be easier to list what *isn't* broken. It often feels like we are constantly being assailed by new challenges, or at least new versions of old challenges.

However, the 2020 National Budget could also be a welcome ray of light for several reasons.

Here are several things we hope to see in tomorrow's Budget Speech – and three ways they impact you:

1. **Policy certainty**

   The most important need is an urgent need for policy certainty. This comes in many forms and has lots of ramifications within the overall context of the country's economic future.

   President Cyril Ramaphosa and Minister Mboweni have grand ambitions for the South African economy and have put forward several plans that would genuinely benefit the country in terms of economic growth. However, when these plans are presented to the ANC National Executive Council (NEC), most of them are blocked.

   It appears the needs of the party continue to take precedence over the needs of the country. We need policy certainty so that when President Ramaphosa puts forward a plan that will benefit the economy, it will be taken seriously and implemented.

Policy uncertainty is one of the major factors preventing direct foreign investors from seriously considering South Africa as an investment destination. It also impacts local business and consumer confidence in the economy. This will most likely result in lack of corporate spending, particularly in much needed infrastructure investment.

All of the above challenges conspire to restrict the economic recovery so many South African’s are desperate for.

2. **Firm plans for Eskom and SOE’s**

Expect the Eskom, and other State-Owned Enterprise (SOE) issues, to take center stage at this year’s budget speech for several reasons.

First, there needs to be a statement of intent from Mboweni with regards to Eskom’s debt issue. Eskom has around R450 billion in debt, of which the government guarantees nearly R300 billion. This means that there is over R150 billion worth of debt that still needs to be covered from other sources. The government also has contingent liabilities related to other SOEs.

3. **More detail on the Eskom unbundling**

It would be a positive sign of intent if Mboweni provided insight into the unbundling of Eskom and how that differs from privatisation. To my mind, the privatisation issue is currently not even a consideration. This all speaks to the policy certainty issue addressed earlier.

Load shedding is having a significant impact on the economy. Therefore, the stabilisation of Eskom cannot be overstressed. Before Eskom even thinks of loadshedding it asks major power consumers – the mining and manufacturing sectors – to reduce their consumption. And even then, Eskom needs to reduce capacity.

We cannot move towards a gig economy unless there is certainty about the power generation issue. There are other challenges such as the price of data and laws around starting a company – although President Ramaphosa did mention upcoming talks between mobile operators and competition authorities to reduce data costs for poorer SA households and limited free data access in his State of the Nation Address. But we cannot even think about these challenges if there is no confidence in Eskom. There are no plans to give the production that is lost during loadshedding (in terms of income) back to small businesses.

4. **Tangible support for IPPs**

If there is a focus on increased support for renewable energy and the onboarding of independent power producers (IPPs) in an effort to address our generation and distribution issues, we can assume that there is political will to take a more proactive position on the Eskom issue. It will take some time for independent power producers (IPPs) to produce electricity at the same level as Eskom, but any spare capacity reduces our need for load shedding. Again, the president did begin this conversation during SONA with his vow to “fix load shedding” by allowing municipalities to buy from IPPs and scrapping the limit to installed capacity above 1MW.

5. **A tougher line with other SOEs**

Other State-Owned Enterprises (SOEs) will also be thrust into the spotlight – SAA in particular comes to mind. Mboweni needs to be firm about what is happening to turn around SOEs and how they can contribute to the economy.

6. **Tax code changes**

If there is an announcement on revisions to the tax code, we will be on the right track. These revisions will mean that there won't be an undue tax burden on the country while we will still be generating income for government and social programs.

7. **Job creation incentives**

   If there are new incentives for companies to employ young people, that would also be a positive sign as this will create jobs which South Africa desperately needs.

And three ways the Budget Speech may affect you:

1. **If the right things are not said, we are likely facing a downgrade**

   Moody's and Standard & Poor's have both said that if the Eskom issue is not sufficiently addressed, then there is a likelihood that South Africa will face another ratings downgrade.

   If South Africa is downgraded again, it will be a devastating blow to the economy. It means that it will be harder for government to borrow money and that interest payments will be more expensive. This affects everything from unemployment figures to salary increases, the value of the rand and how much the average South African household will be that much more financially squeezed. Mboweni needs to do everything in his power, with limited resources, to achieve a stay of execution when it comes to a ratings downgrade.

2. **Thus, we are likely facing a VAT increase – and other tax hikes**

   Because of this, there needs to be an income into government to address the debt to GDP ratio. This is another issue that ratings agencies look at when it comes to any decision to downgrade the economy. Mboweni must find creative ways to generate income.

3. **We may lose more SMEs if Eskom isn't addressed**

   Small businesses are the hardest hit by load shedding. Like the rest of the world, small businesses are major contributors to the economy, added to this is the fact that South Africa wants to become part of the gig economy building a culture of online entrepreneurship. None of which can happen when the lights keep going out.

   President Ramaphosa and Mboweni know that this will be a watershed budget and that there is a lot at stake if the country's challenges are not addressed. What we need to do now is move towards a new dawn, no matter how difficult this may seem. A lot needs to be done to restore confidence in the South African economy. Without it, spending is reduced and there will be no foreign direct investment. The pledges worth R363-billion which were made by domestic and foreign firms at the second South African Investment Conference at the end of last year, if injected into the economy, will be a welcome boost.

   The darkest hour is always just before dawn; yet there is hope even in the worst circumstances. Let us wait and see if tomorrow, the light shines a little brighter for South Africa than today.